

Elliehausen and Lawrence use a variation of life-cycle theory to explain the willingness of many low- and moderate-income households in early family stages to pay triple-digit interest rates for very short-term consumer loans. Given these households' low levels of savings and the high subjective returns on household investments that the loans finance, demand for credit by financially strained borrowers is relatively unresponsive to increases in annual percentage rates or financing fees (Elliehausen & Lawrence, 2001, p. 12).

Option theory is also used by economists to help explain the conditions under which a consumer will choose to stop payments on a loan or default on a debt that he or she has incurred. This perspective is especially useful in models of residential mortgage default, in which a borrower's decision to default depends largely on whether the unpaid loan balance exceeds the market value of the house securing the mortgage (Deng, Quigley, & Van Order, 2000). Having applied option theory to credit card defaults by households with blemished credit and identified a strong statistical relationship between credit card default and individual bankruptcy filings, Sullivan and Worden (as cited in Deng et al, 2000, p. 124) suggest that less creditworthy households may use credit cards more intensely because they value highly the default option this payment form allows. This theory may also help explain why some credit-constrained individuals prefer pawnshops over other sources of credit—since it is widely known that the borrower's option not to redeem a pawned item (i.e., to default) is neither reported to credit bureaus nor has any impact on his or her credit rating.

Psychological theory has also been used to explore household debt accumulation and payment behaviors because, according to Bachman, “an individual's motivation to eliminate indebtedness flows from financial means as well as emotional desire” (2001, p. 1). Debtors interviewed in a study of borrowing behavior among residents in South West England were more likely than non-debtors to describe themselves as coming from more debt-tolerant surroundings, posit the existence of a “culture of indebtedness” (Lea, Webley and Walker, 1993, p. 682). “An important factor in predicting debt status was